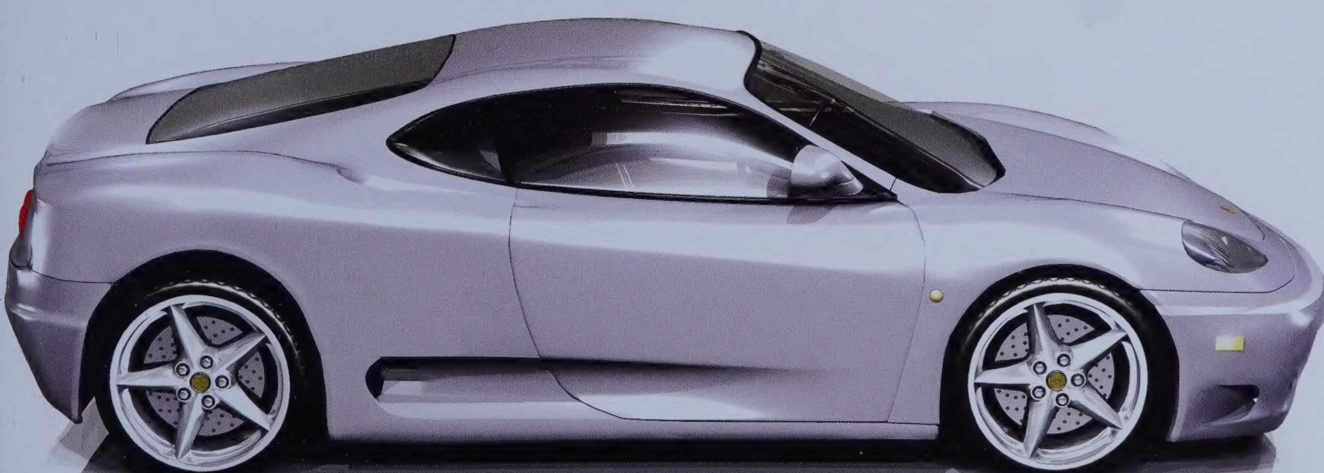
2004 MEGAWHEELS TECHNOLOGIES INC. ANNUAL REPORT



PARTNERS IN MARKETPLACE CREATION

JOIN US FOR THE 2005AGM

Megawheels Technologies Inc. cordially invites the Shareholders to attend the 2005 Annual General Meeting and Special Meeting to be held at the offices of McCarthy Tétrault, Barristers and Solicitors, 3300, 421 – 7th Avenue S.W., Calgary, Alberta, T2P 4K9, on Thursday, January 27, 2005 at 11:00 A.M., MST.

Shareholders Message

December 10, 2004

Dear Shareholder:

We are very pleased to deliver another quarter of improved financial results.

	3 months Jun/04-Aug/04	3 months Jun/03-Aug/03		12 months Sep/03-Aug/04	12 months Sep/02-Aug/03	
Net Income (Loss)	($95,363)	($282,739)	66%	($639,465)	($1,549,064)	59%
Net Loss per Share – Basic and Diluted	($0.00)	($0.01)	99%	($0.03)	($0.07)	57%
EBITDA	($53,070)	($422,143)	87%	($427,918)	($1,296,530)	67%
Cash Used in Operations	($28,997)	($323,407)	91%	($438,415)	($1,872,489)	77%

The Company continued along its path to profitability in fiscal 2004, evidencing expanded licensing revenue and a lower operating cost base. For the fiscal period ended August 31, 2004, the Company reported an overall operating net loss of ($639,465), compared to an operating loss of ($1,549,064) for fiscal 2003. These results reflect a 59% year-over-year improvement in operating performance.

Earned revenue for the fiscal year ended August 31, 2004 increased 8% to $2,595,316, compared to $2,399,084 in fiscal 2003. The increase was due to growth within the Company's existing client base, lead by the deployment of the Nicemove.ie real estate portal for **The Irish Times** and the production of two additional weekly newspaper inserts for **Commercial** and **Residential Property**, as parallel offerings to **Motors** which has been in production since 2001. This was followed by dealer participation increases in **Globemegawheels.com** with **The Globe and Mail**, plus the continued upgrade of technology for dealer management system installations. The additional revenue from new media contracts with **The Red Deer Express** and **The Londoner** represents the Company's successful entry into the weekly community newspaper sector.

Operating expenses for the 2004 fiscal year decreased by $841,132 to $3,026,927, representing a 22% reduction of the overall cost of operations net of a $277,144 increase in customer service expenses. The 50% increase in customer service last year represented our investment in better understanding our current client needs and the corresponding revenue opportunities.

We have collected $512,800 of the $500,000 financing announced this time last year and Management views incremental funding of $250,000 as sufficient to fund the Company to sustainable positive operating cash flow in 2005. The Company has therefore authorized continuation of a funding round on identical terms, comprised of a Series C Convertible Preferred share offered at $0.12 per share and for each 2 shares purchased, the receipt of a warrant to purchase an additional share at $0.12 per share for one year. Private placement investors purchase shares that are trade restricted for one year. The company expects to close this offering within the next 45 days.

Our primary objective for 2005 is the marketing of Megawheels' automotive products with an emphasis on the USA where we have attended three recent trade shows. Research published by **Borrell Associates Inc.** states that 77% of used car buyers now use online research. Auto dealers are responding and have increased their online ad spend by 100%.

New opportunities for newspapers are driven by the fact that a full 50% of online shoppers now start their research at an independent website. Megawheels can turnkey a best-of-breed online offering tied into traditional print products. Incremental revenues for newspapers are derived from both retail advertisers and private listers, through up-selling print to online advetisers and for easy-to-use listing enhancements such as photos and enriched media. We see particular opportunity in the smaller market and community newspaper sector, which is strengthening in market share of advertising spend relative to large market daily papers.

Our pipeline of new deals is filling with prospects that can reference MegaDrive.ca with The Londoner and ExpressMegawheels.com, with the Red Deer Express as our successful implementations in the community sector. Longer-term customer benefits for The Globe and Mail are indicated by the continuing position of GlobeMegawheels which has sustained a 20% share of market shift in auto advertising in the Greater Toronto Area, in what has been defined as the most competitive marketplace for daily newspapers in North America. Brunswick News has renewed our agreement after the initial 3 year term, reflecting the continued market leadership of Wheels and CanadaEast.com. We are very pleased to have helped The Irish Times exceed plan in 2004. Their re-branding of Nicemove.ie for all classified items, combined with our web to print publishing portals in motors and property, has resulted in a market leading online and in-print offering, as our reference account for European expansion.

We are also honoured that Megawheels and some of our customers have become case studies with The Richard Ivey School of Business and are being viewed in the context of best practices by Canada's leading business school.

Our current R&D priority is the North Americanization of our real estate platform and the definition of local opportunities for current customers. Industry research now supports that 71% of homebuyers use the Internet in their searches. We are seeing a parallel shift in advertising mix. While the leader remains newspapers with 40% of the advertising spend, this represents a 20% decrease over the past 4 years to $600 per house sold in the USA; whereas online advertising has increased from $50 to $150 per house sold and is forecast to have a 20% to 30% annual growth in the future.

With the Internet now being the number two medium for reaching home buyers, it means that agents and brokers should focus on a more consistent and holistic brand of advertising. Newspapers must now provide a viable online real estate offering that links to a more efficient use of print, or face the repetition of the experience in their careers sections, where help wanted ads for newspapers decreased from $8.7 billion annually to $4 billion in three years.

We are opportunistic in the creation of high ROI projects for customers and for ourselves, with incremental R&D investment planned for new advertising verticals that include general merchandise and careers, as well as for incremental technology to our customers' key advertising clients, auto dealers and real estate agents. Our dealer management system platform, **Drive**, has a significant new release being introduced to clients, and we are routinely making leading-edge enhancements to both our **Showroom** and **Showsuite** media products. We plan for a moderate increase in R&D going forward, combined with anticipated acceleration events through partnership opportunities within each of our operating sectors.

The Company has also continued to reorganize for growth with Robert Jolly taking over the role of President. Robert previously guided our technology portfolio build as Chief Technology Officer for a number of years. We anticipate further acceleration in our business development activity with the addition this past quarter of Richard Brightling as both an investor and as Vice President, Sales and Marketing. With a focus on real estate and automotive sector opportunities during his career as a senior advertising executive, we can now combine seasoned sales and marketing expertise with our best-of-breed technology and service offering.

Megawheels is also pleased to welcome Dr. Ken Hardy to our Board of Directors and Audit Committee. Dr. Hardy is a Senior Professor of Marketing at the Richard Ivey School of Business, at the University of Western Ontario and a Visiting Professor at The University of Michigan. Dr. Hardy will provide Megawheels with guidance in both the strategic and financial aspects of our business. The control of the Audit and Compensation Committees for Megawheels rests with independent outside directors who have relevant domain expertise. We also acknowledge with gratitude the founding entrepreneurial role provided by Marty Hilsenteger, who has recently left our Board to focus on other ventures.

Our product is the strength of our people combined with user-friendly technology. We are very thankful for a growing team of dedicated employees, who share our vision and commitment to being world leaders in the benefits we provide to our customers. We look forward to delivering a profitable company to all our stakeholders in 2005. Thank you for your continuing support.

Sincerely,

T. Christopher Bulger, MBA, CFA
Chairman of the Board and Chief Executive Officer

Management Discussion and Analysis
October 15, 2004
Fiscal Year Ended August 31, 2004

Overview
Founded in 1995, Megawheels Technologies Inc. (TSXV: MWT) is a provider of industry leading classified advertising technology with a focus on the automotive and real estate sectors. The Company provides turnkey hosted services, which support the outsourcing of custom branded on-line and in-print products, for newspapers to offer their individual and retail advertisers. Megawheels also provides a suite of dealer management system (DMS) software which support the business system requirements for franchise and independent auto dealerships.

The Company is committed to a high level of customer service for all newspaper partners, automotive dealers, real estate agents, and consumers. The core client benefits of reduced traditional costs, increased market share and incremental revenues, are the result of competitive differentiation enabled by user-friendly software that is offered to advertisers.

The Company provides quality software solutions that improve the effectiveness of classified advertising, increase the efficiency of business operations for advertisers, and provide consumers with a satisfying experience. Newspapers can extend their brands to the Internet and as such, provide a more comprehensive service to advertisers and readers. Key technology advantages include advanced online searching capabilities for buyers, plus easy-to-use software for sellers, that connects online inventory with time saving electronic publishing capability for traditional print products.

Our corporate headquarters are in Calgary, Alberta, with offices in Toronto and Dublin, Ireland.

Selected Financial Information
Income Statement (for the years ended August 31)

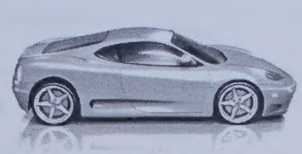
	2004	2003	2002
	$	$	$
Revenue	**2,595,316**	2,399,084	2,926,188
Net Loss	**(639,465)**	(1,549,064)	(4,002,624)
Per common share	**($0.03)**	($0.07)	($0.19)

Balance Sheet

(as at year ending August 31)	**2004**	2003	2002
	$	$	$
Current Assets	**589,630**	701,376	571,780
Capital and other Assets	**329,768**	418,686	527,950
Total Assets	**919,398**	1,120,062	1,099,730
Current Liabilities	**581,275**	1,124,773	2,810,264
Capital Lease Obligations	**11,316**	40,271	34,271
Shareholders' equity (deficiency)	**326,807**	(44,982)	(1,744,805)
	919,398	1,120,062	1,099,730

Fiscal 2002 saw the end of reduced revenues due to the amendments of the agreements with certain of the Company's media partners to technology licensing from low-margin profit sharing agreements. Fiscal 2003 saw the first full year of revenues resulting from technology licensing resulting in a decrease in revenues over the prior year, offset by increased revenues from new media contracts. During 2004, the Company entered into additional contracts with the Red Deer Express and the Londoner, and began to recognize revenues from a new Real Estate agreement with the Irish Times, resulting in an increase in revenues over fiscal 2003.

During 2001, Management began to focus on reducing overall discretionary costs; this resulted in a sequential decrease in operating costs during each of the following three years. The Company's depreciation and amortization expenses have also decreased sequentially year over year, as the result of a write-down of certain capital assets to their estimated net recoverable amount during fiscal 2002.



The net loss for fiscal 2003 included a foreign exchange gain of $222,445 on $ US denominated convertible debentures and a one-time loss on conversion of debentures of $50,000. Interest expense for fiscal 2004 continued to decrease as a result of the conversion of most of the Company's debt.

Results of Operations

For the fiscal year ended August 31, 2004, the Company reported an overall operating and net loss of $639,465, compared to an operating and net loss of $1,549,064 for fiscal 2003. These results reflect a 59% year-over-year improvement.

Revenue

Earned revenue for the 2004 fiscal year ended August 31, 2004 increased 8% to $2,595,316, compared to $2,399,084 in fiscal 2003. The increase was primarily due to organic growth within the Company's existing client base, the addition of revenue provided by new Media contracts with The Red Deer Express, and The Londoner and increased long-term contracted licensing revenues from the development of a real estate portal for the Irish Times.

The company earns revenues for sales and licensing of its Dealer Management System software and for providing custom branded websites for those newspapers embedded with classified advertising technology. During fiscal 2005, it is expected that long-term licensing revenues from new media contracts will increase with the development of a real estate offering customized for the North American market.

Operating Costs

General and Administrative. General and administrative expenses consist primarily of administrative salaries, rent and professional fees. For fiscal 2004, general and administrative expenses were $939,216 compared to $1,204,340 for fiscal 2003, a decrease of 22%. The Company continued cost saving measures during 2004 with the goal of achieving operating profitability which, when combined with a reduction in overhead expenses as a result of headcount reductions, resulted in this decrease.

Sales and Marketing. Sales and Marketing expenses include expenses for sales commissions, salaries, advertising, tradeshows, promotional materials and other selling and marketing related activities. During fiscal 2004, these expenses totalled $229,078, down significantly from $760,853 for fiscal 2003, a decrease of 70%. The decrease is due primarily to reduced travel and the effect of a reduction in headcount in this area. The Company expects selling and marketing expenses to increase in fiscal 2005 as it expands selling and marketing activities.

Customer Support. Customer Support expenses consist primarily of salaries, customer support, production and layout, and on-site client services. During fiscal 2004, Customer Support expenses totalled $1,209,191, reflecting a 30% increase when compared to $932,047 during fiscal 2003. The Company shifted its business development focus to the expansion of revenues through new services to existing clients in 2004. This is reflected in the customer support expense increase.

Software Development and Support. Software development and support expenses include salaries and other direct costs associated with the development of new products and the support of internal network operations. Overall, software development and support costs were $649,442 during fiscal 2004, compared to $970,819 during fiscal 2003, a decrease of 33%.

Software development costs were $432,480 for the year ended August 31, 2004, down from $619,596 during 2003, due mainly to completion of the real estate portal development. The Company expenses all software development with the intent to increase development efforts in fiscal 2005.

Interest Expense. Interest expense for fiscal 2004 decreased by 3%, from $83,152 during fiscal 2003, to $80,701 during fiscal 2004. This decrease was largely due to the reduction in debt levels during the year and $225,767 of interest forgiven by Bell Globemedia on their $1,000,000 convertible debenture that was converted during the previous year and included as a reduction of interest expense during fiscal 2003.

Depreciation and amortization. Depreciation and amortization expense was $130,846 for fiscal 2004, compared to $169,382 for fiscal 2003, a decrease of 23%. The decrease was due to the reduced depreciable asset base.

Summary of Quarterly Results

The following table sets forth certain unaudited information for each of the most recent quarters, the last of which ended on August 31, 2004. The information is derived from the Company's unaudited consolidated financial statements that, in Management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements and include all adjustments necessary for a fair presentation of the information offered. Past performance is not a guarantee of future performance, and this information is not necessarily indicative of results for any future period.

2004	Q1	Q2	Q3	Q4
Revenues	**627,895**	**658,560**	**649,231**	**659,630**
Net Loss	**(266,563)**	**(175,294)**	**(102,245)**	**(95,363)**
Basic & Diluted loss per share	**(0.01)**	**(0.01)**	**(0.00)**	**(0.00)**

2003	Q1	Q2	Q3	Q4
Revenues	620,121	625,804	592,106	561,053
Net Loss	(447,836)	(461,026)	(357,463)	(282,739)
Basic & Diluted loss per share	(0.02)	(0.02)	(0.02)	(0.01)

During 2003 and 2004, the Company began to realize the effects of new customer revenue and the results of continued efforts by Management to reduce operating costs. Consequently, the Company has experienced reductions in quarterly net loss in all eight quarters of the past two years.

Megawheels continues to focus its efforts on revenue growth in the pursuit of profitability, as the opportunities for further operational cost containment are not considered significant without resort to a fundamental restructuring of the business. Given the current prospects for future business in the near and medium-term, Management does not believe that such restructuring is in the best interest of the Company.

Fourth Quarter

Revenues continued to increase during the fourth quarter, as a result of increased revenues due to the signing of a contract with the Londoner and the completion of upgrades to DMS installations.

During the fourth quarter of fiscal 2004, convertible promissory notes for a total principal amount of $170,425 (US$125,000) were converted into 1,420,208 Series C preferred shares. In addition, the holder agreed to accept, subject to TSX approval, 202,164 series C preferred shares in satisfaction of accrued interest of $24,260 (US$18,349).

During the quarter, the Company also received subscriptions for 850,000 Series C preferred shares for cash consideration of $102,000. The shareholders will also receive 425,000 Series C warrants to purchase Series C shares of the Company at $0.12 per share. The warrants are exercisable at any time prior to the earlier of two years after the date on which the shares were issued or August 15, 2005.

Megawheels experienced no extraordinary items, or material adjustments during the quarter or at year-end, other than that anticipated in the normal course of business.

Taxes

In light of continuing operating losses, the Company has again provided a valuation allowance for the full amount of future income tax assets at August 31, 2004. Accordingly, there are no future income tax recoveries reflected in the current or prior years' statements of operations. At August 31, 2004 the Company has significant loss carry-forwards for income tax purposes that may be applied against taxable income of future years. These are comprised of approximately $15 million of Canadian losses, $294,000 of U.S. losses, $1.6 million of losses from the U.K. operations, and $15,000 of Irish losses.

Financial Condition and Liquidity

As at August 31, 2004 the Company had cash of $146,332 compared to $238,715 at August 31, 2003. Cash used in operating activities decreased from ($1,872,489) in fiscal 2003 to ($438,415) for the fiscal year ending August 31, 2004. Negative EBITDA (Earnings before Depreciation Interest and Taxes) decreased from ($1,296,530) in fiscal 2003 to ($427,918) during fiscal 2004, representing a 67% improvement in cashflow as defined by EBITDA. While not a standard measurement under Generally Accepted Accounting Principles, the Company believes EBITDA is an appropriate measure of operating performance. However, EBITDA could be defined differently by other companies and should be considered in addition to, not as a substitute for other measures of financial performance, including revenues and operating income. The decrease resulted from Management's focus on reducing overall discretionary costs. The Company's working capital surplus was $8,355 compared to a deficit of ($423,397) for the 2003 fiscal year end, a result of the conversion and repayment of convertible debt during the year.

Risks and Uncertainties

Limited Operating History; Uncertainty of Future Operating Results. The Company has recorded net losses for each year since its predecessor was incorporated on April 29, 1998. Due to the Company's short operating history, the uncertainty of lasting acceptance of the Company's products, the rapid evolution of competitive software products, and the other risk factors discussed below, there can be no assurance that the Company can ensure revenue growth or to achieve and sustain profitability or positive cash flow from future operations.

Ability to Raise Capital. The Company may need to raise additional funds through financing which may or may not be available on acceptable terms, if at all. Although no assurances can be given, based on the Company's continued ability to reach operations and development targets, Management expects that the Company can raise additional capital to meets growth requirements.

Dependence on Key Personnel and Management of Growth The success of the Company depends upon the continued support of key members of senior management, including Christopher Bulger, Chairman and Chief Executive Officer and Robert Jolly, President. The loss of the services of one or more of these key personnel could have an adverse material effect on the Company. There can be no assurance that the Company will be able to retain these individuals or to recruit other qualified personnel. The Company believes that future success will also depend in large part on the ability to attract and retain highly skilled technical, managerial and sales personnel. As the Company continues to grow, existing personnel will be given increased responsibilities. There will be hiring of additional personnel and in general, higher operating expenditures. To successfully manage current operations and any future growth effectively, the Company must continue to improve operational, financial and management information systems, to hire, manage and retain employees, to integrate technologies and personnel with existing operations and to maintain a corporate culture that promotes technical and customer service standards. There can be no assurance that the Company will be able to manage growth effectively or that the management, personnel or systems will be adequate to support growth in the Company's operations.

Product Development and Technical Change. The market for the Company's software products is constantly evolving and new product enhancements are regularly introduced. In order to compete successfully, the Company must continue to develop and create new products and upgrade existing products that reflect technological changes and market developments in database technology platforms, operating systems and hardware platforms. Such product development may require the Company to continue to invest in research and development on an ongoing basis. The new product development cycle may be significantly longer than the development cycles for prior products and upgrades. The introduction of products embodying new technologies could cause existing products, and products currently under development, to be obsolete and unmarketable. The Company's future success will depend on the ability to enhance its current products and to develop and introduce new products that stay current with technological developments, so responding to customer requirements and achieve market acceptance. There can be no assurance that the Company's future products or enhancements will keep pace with technological change or satisfy market needs, or that the Company will successfully develop or market any future products.

Software Defects. The Company's products are technically complex and may contain undetected performance problems or errors. There can be no assurance that the future discovery of these performance problems or errors will not cause delays in products introduction, require design modifications or result in damage to the Company's reputation, loss of revenue, loss of market share, delay in market acceptance or product liability or other claims against the Company. Furthermore, there can be no assurance that the Company will be able to correct any such errors on a timely basis, or at all. Correction of errors or other defects may require significant expenditures by the Company. Provisions contained in the Company's licence agreements that are designed to limit the Company's exposure to potential claims, as well as any liabilities arising from such claims, may not effectively protect the Company against some or all of such claims and the liability and costs associated therewith. Any of these possible occurrences could have a adverse material effect on the Company's business, results of operations or financial conditions.

Network Operations. While the Company makes every effort to ensure the stability and security of its networks and network operations, there can be no assurance that the Company will be able to guarantee the stability and security of these networks. In response to this risk, the Company has signed a co-location agreement with Q9 Networks to reduce the risks to the Company's client servers. The Company cannot provide assurance that Q9 Networks will be able to maintain business operations. There can also be no assurance that the Company will be able to maintain existing relationships with this or other complimentary vendors or to enter into new relationships.

Risks Associated with International Operations. The Company intends to continue to strive for increased international sales, and anticipates that international sales will continue to account for a considerable portion of revenues. These sales are subject to certain risks and costs associated with international operations, including the difficulty and expense of staffing and administration of business abroad, and complications in complying with foreign laws and regulations. In addition, while Canadian copyright law, international conventions and international treaties may provide meaningful protection against unauthorized duplication of software, the laws of some foreign jurisdictions may not honour these rights to the same extent as the laws of Canada. Software piracy has been, and can be expected to be, a persistent problem for the software industry. Although to date the Company has not experienced any of the foregoing factors with its key products, there can be no assurance that these factors will not be experienced by the Company in the future, or that they will not have a material adverse effect on the Company's business, results of operations and financial condition.

Future Operations

The Company's ability to continue ongoing operations is dependent upon the ability to generate sufficient cash flow and to obtain sufficient financing necessary to fund its business to the point of achieving profitable operations. The Company has implemented a restructuring plan to improve efficiency, competitiveness, and superior service to existing and prospective clients while ensuring asset protection, adequate staffing, and compliance with government, taxation, securities and other bodies. The Company has incurred negative annual cash flows from operations since inception and expects to continue to expend the funds necessary to continue to develop new technologies. We estimate that additional working capital in the amount of $250,000 will be required for 2005. The Company expects to obtain the additional working capital through the additional issuances of shares, conversion of warrants and exercise of options. However, the Company cannot provide assurance that efforts to raise such additional financings will be successful.

The actual amount of funds that will be required during the interim period will be determined by many factors, some of which are beyond the Company's control. As a result, it may require funds sooner or in greater amounts than currently anticipated.

Forward-Looking Statements

This Annual Report contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those contained in such statements. Readers are cautioned not to place undue reliance on these statements, which reflect Management's analysis only as the date hereof. Although new material developments will continue to be press-released as they are experienced, the Company undertakes no obligation to publicly release any revision to these forward-looking statements, in order to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are referred to the foregoing Management's Discussion and Analysis, including discussions of financial condition and liquidity and results of operations, which could cause actual results to be materially different from such forward-looking statements.

MANAGEMENT REPORT

To the Shareholders of Megawheels Technologies Inc.

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. In the opinion of management the financial statement have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems on internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

Ernst & Young LLP, an independent firm of chartered accountants, has been engaged to audit the consolidated financial statements in accordance with auditing standards generally accepted in Canada and to provide an independent professional opinion.

T. Christopher Bulger
Chairman and Chief Executive Officer

Robert F. Jolly
President

AUDITORS' REPORT

To the Shareholders of Megawheels Technologies Inc.

We have audited the consolidated balance sheets of Megawheels Technologies Inc. as at August 31, 2004 and 2003 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

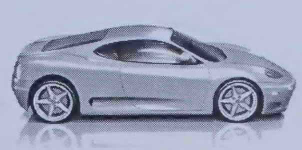
We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Calgary, Canada
October 6, 2004

Chartered Accountants



Megawheels Technologies Inc.

CONSOLIDATED BALANCE SHEETS

[See Incorporation and Basis of Presentation - Note 1]

As at August 31	2004	2003
	$	$
ASSETS		
Current		
Cash and cash equivalents	**146,332**	238,715
Trade accounts receivable	**408,608**	424,026
Inventory	**6,565**	9,669
Prepaid expenses and deferred charges	**28,125**	28,966
	589,630	701,376
Capital assets [Note 3]	**329,768**	418,686
	919,398	1,120,062
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	**461,731**	510,164
Deferred revenue	**43,115**	8,200
Convertible debentures/notes [Note 4]	**47,474**	570,247
Current portion of capital lease obligations [Note 5]	**28,955**	36,162
	581,275	1,124,773
Capital lease obligations [Note 5]	**11,316**	40,271
Commitments [Note 10]		
Shareholders' equity (deficiency)		
Share capital [Note 6]	**29,231,696**	28,560,730
Shares to be issued [Note 6]	**383,160**	—
Contributed surplus [Note 4]	**29,000**	71,872
Deficit	**(29,317,049)**	(28,677,584)
	326,807	(44,982)
	919,398	1,120,062

See accompanying notes

On behalf of the Board:

Megawheels Technologies Inc.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

For the years ended August 31	2004	2003
	$	$
Revenue	**2,595,316**	2,399,084
Operating expenses		
General and administrative	**939,216**	1,204,340
Sales and marketing	**229,078**	760,853
Customer support	**1,209,191**	932,047
Software development and support	**649,442**	970,819
Interest expense [Note 4]	**80,701**	83,152
Depreciation and amortization	**130,846**	169,382
Loss on settlement of convertible debentures	**—**	50,000
Foreign exchange gain	**(3,693)**	(222,445)
	3,234,781	3,948,148
Net loss for the year [Note 9]	**(639,465)**	(1,549,064)
Deficit, beginning of year	**(28,677,584)**	(27,128,520)
Deficit, end of year	**(29,317,049)**	(28,677,584)
Basic and diluted net loss per share [Note 2(i)]	**(0.03)**	(0.07)

See accompanying notes

Megawheels Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended	2004 $	2003 $
CASH WAS PROVIDED BY (USED FOR):		
Operating activities		
Net loss for the year	**(639,465)**	(1,549,064)
Add (deduct) non-cash items:		
Depreciation and amortization	**130,846**	169,382
Accreted interest expense	**25,451**	82,864
Interest settled by issuance of shares [Notes 4 (e) and (h)]	**43,756**	100,038
Loss on sale of capital asset	**—**	18,965
Loss on settlement of convertible debentures [Note 4(d)]	**—**	50,000
Unrealized foreign exchange gain	**(4,848)**	(205,445)
	(444,260)	(1,333,260)
Net change in non-cash working capital [Note 8]	**5,845**	(539,229)
Cash used in operating activities	**(438,415)**	(1,872,489)
Investing activities		
Decrease in due from related companies	**—**	31,959
Purchase of capital assets	**(41,928)**	(28,662)
Cash from (used in) investing activities	**(41,928)**	3,297
Financing activities		
Issuance of preferred shares, net of issue costs	**626,648**	411,323
Issuance of convertible debentures, net of issue costs	**—**	1,524,832
Repayment of capital lease obligations	**(36,162)**	(25,145)
Repayment of convertible debentures	**(202,526)**	—
Cash from financing activities	**387,960**	1,911,010
Increase (decrease) in cash and cash equivalents	**(92,383)**	41,818
Cash and cash equivalents, beginning of year	**238,715**	196,897
Cash and cash equivalents, end of year	**146,332**	238,715
Supplementary information: Cash interest paid	**9,476**	9,891

See accompanying notes

Megawheels Technologies Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. INCORPORATION AND GOING CONCERN UNCERTAINTY

Megawheels Technologies Inc. (the "Company" or "Megawheels") is incorporated under the laws of Canada and operates in one principal business segment as a provider of automotive dealership management software systems, internet based automotive and real-estate marketing databases and automotive and real-estate print advertising systems and services in Canada, the United States, the United Kingdom, and Ireland.

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presumes the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company has incurred significant operating losses and cash outflows from operations and has a deficit of $29,317,049 at August 31, 2004. The Company's ability to continue as a going concern is dependent on achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not contain any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenue and expenses during the period. Actual results may differ from these estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Consolidation

These financial statements include the assets, liabilities and results of operations of the Company together with its wholly owned subsidiaries Megawheels Limited, Megawheels Corporation, Megawheels Technologies (Ireland) Limited, 1058626 Alberta Inc. and Megawheels Technologies Partnership. All inter-company transactions and balances have been eliminated upon consolidation.

b) Cash and cash equivalents

Cash and cash equivalents includes investments in highly liquid money market instruments with original maturities of less than ninety days, which are readily convertible to known amounts of cash, subject to insignificant risk in changes of value and which are held to meet operating requirements.

c) Inventory

Inventory consists mainly of computer hardware and is stated at the lower of cost, on a first-in first-out basis, and net realizable value.

d) Capital assets

Capital assets are recorded at cost and amortized based on estimated useful lives as follows:

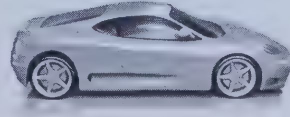
Computer equipment	50% declining balance
Furniture and equipment	20% declining balance
Software license	Straight line over the 15 year contract life
Leasehold improvements	Over the term of the leases (0.7 years)
Computer software	Straight line over 3 years

Capital assets under capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease, and are amortized based on 50% declining balance.

e) Revenue recognition

Revenue from the sale of dealer management system software is recognized upon the completion of installation and setup. Revenue from equipment sales and installation is recognized in the period in which the installation is complete or, in the event installation is not required, when the equipment is shipped. Licensing fees, user fees, support fees, and data management fees from the dealer management system are recognized as the services are provided. Revenue from website development is recognized in the period in which the services are performed. Revenue from reverse publishing is recognized in the month in which the services are provided.

Payments received in advance of providing the service or delivering the product are recorded as unearned revenue and are included in deferred revenues at August 31, 2004 and 2003.



f) Software development costs
Costs of developing, updating and maintaining internally developed computer software and websites are expensed as incurred. The cost of acquiring third party software is capitalized and amortized over its estimated useful life.

g) Income taxes
The Company follows the liability method of accounting for income taxes. Under this method, the Company records income taxes to give effect to temporary differences between the carrying amount and the tax bases of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable for the year or for a later period. Future income taxes are recorded using substantively enacted income tax rates that are expected to apply when the future tax liability is settled or the future tax asset is realized. When necessary, valuation allowances are established to reduce future income tax assets to the amount that is more likely than not to be realized. Income tax expense is the tax payable for the period and the change during the period in future income tax assets and liabilities.

h) Stock-based compensation plan
Effective September 1, 2002, the Company prospectively adopted the new Canadian Institute of Chartered Accountants standard for stock-based compensation. The new standard requires that stock-based payments to non-employees, direct awards of stock and awards that call for settlement in cash or other assets be accounted for using the fair value based method of accounting. The fair value method is encouraged for other stock-based compensation plans, but other methods of accounting, such as the intrinsic value based method, are permitted. Under the fair value based method, compensation expense is measured at the grant date and recognized over the service period. Under the intrinsic value based method, compensation expense is determined as the difference between the fair value of the underlying stock and the exercise price of the equity instruments at the date of the grant. If the intrinsic value based method is used, pro forma disclosure is made of earnings or losses and the related per share amounts as if the fair value based method had been used. The Company has elected to use the intrinsic value based method of accounting for options issued under its stock option plan. Accordingly, no compensation expense has been recognized for this plan (see note 7).

i) Loss per share
Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated in accordance with the treasury stock method. This method assumes that any proceeds from the exercise of a convertible instrument would be used to purchase common shares at the average market price during the period. The effect on loss per share of the exercise of options and warrants and the conversion of debentures is antidilutive and therefore they have been excluded from the computation of diluted loss per share.

The weighted average shares outstanding for the year ended August 31, 2004 was 24,669,719 (2003 – 21,620,185).

j) Foreign currency translation
The Company's foreign operations are considered integrated and are translated into Canadian dollars using the temporal method. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. The resulting exchange gains or losses on these items are reflected in net loss in the period incurred.

3. CAPITAL ASSETS

2004	Cost	Accumulated Depreciation and Amortization	Net Book Value
	$	$	$
Computer equipment	1,083,037	1,000,334	82,703
Furniture and equipment	365,716	226,446	139,270
Software license	2,000,000	1,915,867	84,133
Leasehold improvements	46,122	35,097	11,025
Computer software	2,304,068	2,291,431	12,637
	5,798,943	5,469,175	329,768

2003	Cost	Accumulated Depreciation and Amortization	Net Book Value
	$	$	$
Computer equipment	1,059,322	923,995	135,327
Furniture and equipment	363,489	191,907	171,582
Software license	2,000,000	1,908,276	91,724
Leasehold improvements	45,256	28,914	16,342
Computer software	2,289,791	2,286,080	3,711
	5,757,858	5,339,172	418,686

As at August 31, 2004 and 2003, capital assets include assets under capital leases of approximately $110,635 (accumulated depreciation of $84,434 (August 2003 - $50,880)).

4. CONVERTIBLE DEBENTURES/NOTES

	Principal Amount $	Debt Component $	Equity Component $
Balance, August 31, 2002	1,892,600	1,855,522	219,600
Convertible promissory notes issued (a)	387,060	342,075	44,985
Convertible promissory notes issued (b)	368,200	325,400	42,800
Convertible promissory notes issued (c)	368,772	325,900	42,872
Debentures converted (d)	(1,000,000)	(1,000,000)	(116,000)
Notes converted (e)	(1,397,860)	(1,154,946)	(162,385)
Convertible promissory notes issued (f)	400,800	355,700	45,100
Notes converted (g)	(400,800)	(356,823)	(45,100)
Related accretion during the period	—	82,864	—
Unrealized foreign exchange gain	—	(205,445)	—
Balance, August 31, 2003	618,772	570,247	71,872
Notes converted (h)	(368,772)	(340,850)	(42,872)
Repayment of convertible debt	(202,526)	(202,526)	—
Related accretion during the period	—	25,451	—
Unrealized foreign exchange gain	—	(4,848)	—
Balance, August 31, 2004	**47,474**	**47,474**	**29,000**

(a) On December 9, 2002 and January 10, 2003, the Company issued convertible promissory notes for a total principal amount of $387,060 (US$250,000) maturing one year after the date of issue and bearing interest at 10% per annum. The notes are convertible into 3,225,500 Series C preferred shares of the Company at the option of the holder. The note holder also received 3,225,500 Series C warrants to purchase Series C shares of the Company at $0.12 per share. Subject to TSX approval, 1,296,500 of these warrants are exercisable by December 9, 2004 and 1,929,000 are exercisable by January 9, 2005. The notes may be repaid at any time prior to maturity with the consent of the holder.

The debt component of these notes was recorded at $342,075 and the discount from the amount payable at maturity is accreted over the terms of the notes. The conversion option, valued at a total of $44,985, was recorded as contributed surplus. These notes were converted on June 18, 2003 (see note (e) below).

(b) On February 28, 2003, the Company issued a convertible promissory note for a total principal amount of $368,200 (US$250,000) maturing one year after the date of issue and bearing interest at 10% per annum. The note is convertible into 3,068,333 Series C preferred shares of the Company at the option of the holder. The note holder also received 3,068,333 Series C warrants to purchase Series C shares of the Company at $0.12 per share. Subject to TSX approval, these warrants are exercisable at any time prior to February 26, 2005. The note may be repaid at any time prior to maturity with the consent of the holder. The debt component of these notes was recorded at $325,400 and the discount from the amount payable at maturity is accreted over the terms of the notes. The conversion option, valued at a total of $42,800, was recorded as contributed surplus. These notes were converted on June 18, 2003 (see note (e) below).

(c) On April 24, 2003 the Company issued convertible promissory notes for a total principal amount of $368,772 (US$250,000) maturing one year after the date of issue and bearing interest at 10% per annum. The notes are convertible into 3,073,098 Series C preferred shares of the Company at the option of the holders. The note holders also receive 3,073,098 Series C warrants to purchase Series C shares of the Company at $0.12 per share. 1,536,549 of these warrants have been cancelled (see note 6(e)). Subject to TSX approval, the balance of these warrants are exercisable at any time prior to April 23, 2005. The debt component of these notes was recorded at $325,900 and the discount from the amount payable at maturity is accreted over the terms of the notes. The conversion option, valued at a total of $42,872, was recorded as contributed surplus. These notes converted on May 31, 2004 and July 14, 2004 (see note (h) below).

(d) On June 4, 2003, convertible debentures for a total principal amount of $1,000,000 were converted into 4,000,000 common shares (see note 6). Effective on February 28, 2002, the issued and outstanding common shares of the Company were consolidated on a one-for-two basis, with shareholders holding an odd number of shares receiving full share equivalents. As the original agreement had provided for conversion into 2,000,000 common shares, the additional 2,000,000 shares issued to induce the conversion were measured at fair market value and were recorded in the accompanying financial statements as a loss on settlement of debt in the amount of $50,000 with an offsetting credit to common share capital. In exchange for the waiver by the Company of all advertising and promotional obligations, the debenture holder agreed to waive the payment of accrued interest on these debentures up to the date of conversion, in the amount of $225,767. The waiver of interest was recorded in the accompanying financial statements as a reduction of interest expense in the year ended August 31, 2003.

(e) On June 18, 2003, convertible promissory notes in the principal amount of $1,397,860 were converted into 10,022,249 series C convertible preferred shares. The note holder agreed to accept 2,500,000 warrants rather than the 5,355,000 warrants owing to them. In addition, the holder agreed to accept 850,618 series C convertible preferred shares in satisfaction of accrued interest of $100,038 (see note 6). 1,882,334 of the series C warrants are exercisable at any time prior to June 17, 2005, subject to TSX approval and the balance of 617,666 were cancelled (see note 6(e)).

(f) Between May, 2003 and August, 2003 the Company issued additional convertible promissory notes for a total principal amount of $400,800. The notes are convertible into approximately 3,340,000 Series C preferred shares of the Company at the option of the holders. The note holders will also receive approximately 3,340,000 Series C warrants to purchase Series C shares of the Company at $0.12 per share. 166,667 of these warrants have been cancelled (see note 6(e)). Subject to TSX approval, the balance of these warrants are exercisable at any time until one year after the date on which the offering is completed. The debt component of these notes was recorded at $355,700, and the discount from the amount payable at maturity is accreted over the terms of the notes. The conversion option, valued at a total of $45,100, was recorded as contributed surplus. These notes converted between May, 2003 and August, 2003 (see note (g) below).

(g) Between May, 2003 and August, 2003, the convertible promissory notes referred to in (f) above were converted into 3,340,000 series C convertible preferred shares (see note 6).

(h) On May 31, 2004 and July 14, 2004 the convertible promissory notes referred to in (c) above were converted into 2,840,416 Series C preferred shares. In addition, the holders agreed to accept, subject to TSX approval, 364,633 series C preferred shares in satisfaction of accrued interest of $43,756 (US$32,579) (see note 6).

5. CAPITAL LEASE OBLIGATIONS

The following is a schedule of future minimum lease payments under capital leases expiring in October 2006, together with the balance of the capital lease obligations:

	$
Year ended August 31, 2005	32,665
2006	11,410
2007	635
	44,710
Less amount representing interest at rates varying between 13.6% and 18.9 %	4,439
	40,271
Less current portion	28,955
	11,316

6. SHARE CAPITAL

Authorized

An unlimited number of common voting shares without nominal or par value.

An unlimited number of voting preferred shares, issued in series, of which 15,000,000 Series A convertible, 15,000,000 Series B convertible shares, and 78,000,000 Series C convertible preferred shares are authorized.

The preferred shares are entitled to preference over the common shares with respect to the payment of dividends and the distribution of assets. Each Series B share carries the right to one-half a vote and is convertible at any time, at the option of the holder, into one-half of a common share. Each Series C share carries the right to vote and is convertible at any time, at the option of the holder, into one common share.

Effective on February 28, 2002, the issued and outstanding common shares of the Company were consolidated on a one-for-two basis, with shareholders holding an odd number of shares receiving full share equivalents. All share amounts have been restated to reflect the consolidation.

Issued

Common Shares	**Number**	**$**
Common shares outstanding, August 31, 2002	20,666,760	21,515,352
Issued on conversion of debentures (note 4(d))	4,000,000	1,166,000
Common shares outstanding, August 31, 2003	24,666,760	22,681,352
Issued on conversion of Series C Preferred Shares	500,000	60,000
Common Shares Outstanding, August 31, 2004 (a)	**25,166,760**	**22,741,352**

Series B Preferred Shares	**Number**	**$**
Series B Preferred Shares Outstanding, August 31, 2003 & 2004	**6,722,277**	**2,555,831**

Series C Preferred Shares	**Number**	**$**
Series C preferred shares outstanding, August 31, 2002	9,007,022	1,092,932
Series C shares to be issued (b)	(3,577,542)	(424,305)
Series C shares issued (b)	3,577,542	424,305
Series C shares issued for cash (c)	317,958	38,155
Series C shares issued for cash (d)	3,305,000	391,600
Series C share issue costs	—	(18,432)
Series C shares issued on conversion of notes (note 4(e))	10,022,249	1,317,331
Series C shares issued in settlement of accrued interest (note 4(e))	850,618	100,038
Series C shares issued on conversion of notes (note 4(g))	3,340,000	401,923
Series C Preferred Shares Outstanding, August 31, 2003	26,842,847	3,323,547

Series C Preferred Shares		
Series C shares issued for cash (f)	2,130,000	255,600
Series C shares to be issued (g)	2,343,000	281,160
Series C shares issued on conversion of notes (note 4(h))	2,840,416	383,722
Series C shares issued on conversion of interest (note 4(h))	364,633	43,756
Series C shares to be issued (h)	850,000	102,000
Series C shares converted to Common	(500,000)	(60,000)
Series C share issue costs	—	(12,112)
Series C Preferred Shares Outstanding, August 31, 2004	**34,870,896**	**4,317,673**

Series C Warrants	**Number**	**$**
Series C warrants outstanding, August 31, 2002	5,429,480	—
Series C warrants expired	(5,429,480)	—
Series C warrants issued upon conversion of notes	11,866,931	—
Series C warrants to be issued on completion of offering (note 4(f))	3,340,000	—
Series C warrants outstanding, August 31, 2003	15,206,931	—
Series C warrants cancelled for Series C Preferred shares issued (e)	(2,320,882)	—
Series C warrants to be issued on completion of offering (f)	2,130,000	—
Series C warrants to be issued on completion of offering (g)	1,171,500	—
Series C warrants to be issued on completion of offering (h)	425,000	—
Series C Warrants Outstanding, August 31, 2004	**16,612,549**	**—**

Common Share Warrants	**Number**	**$**
Common share warrants issued (b)	3,577,542	—
Common shares warrants issued (c)	317,958	—
Common share warrants issued (d)	3,305,000	—
Common share warrants outstanding, August 31, 2003	7,200,500	
Common share warrants cancelled for Series C preferred shares issued (e)	(6,564,584)	—
Common share warrants expired	(635,916)	
Common Share Warrants Outstanding August 31, 2004	—	—
Total Share Capital at August 31, 2004		**29,614,856**

Common Shares

(a) At August 31, 2004 there are 1,618,335 common shares held in escrow under an agreement dated May 18, 1999, pursuant to the requirements of the Alberta Securities Commission and the former Canadian Venture Exchange in connection with the reverse takeover of Megawheels. These shares are releasable based on the Company's financial performance.

Preferred Shares

(b) In July, 2002, the Company entered into an agreement to raise US$1,000,000 of financing over a period of nine months subject to various conditions, including a co-investment by management totalling US$50,000 and an additional US$500,000 from other investors and conversion into equity of the $1,000,000 debenture described in note 4(d). In August, 2002, in connection with this financing, total proceeds of $429,305 (US$275,000) were received, before issue costs of $5,000, for which the Company agreed to issue 3,577,542 Series C preferred shares and 3,577,542 common share purchase warrants. Each warrant entitles the holder to purchase one common share at $0.12 at any time until one year after the date of issue. At August 31, 2002 the proceeds were received but the shares and warrants were still in the process of being issued. During the year ending August 31, 2003, the shares and warrants were issued. During the year ending August 31, 2004, 317,958 of the warrants expired and 3,259,584 of the warrants were cancelled (see note (e) below).

(c) On September 20, 2002, a portion of the co-investment by management mentioned in (b) above was received in the amount of $38,155. In return, the Company issued 317,958 Series C preferred shares and 317,958 common share purchase warrants. These warrants expired during the year ending August 31, 2004.

(d) On October 10, 2002, $396,600 (US$250,000) was received, before issue costs of $5,000, as part of the agreement mentioned in (b) above. In return, the Company issued 3,305,000 Series C preferred shares and 3,305,000 common share purchase warrants, which have been cancelled (see note (e) below).

(e) During September, 2003 the Company entered into an agreement with the holders of 6,564,584 Common share warrants and 12,200,264 Series C warrants whereby the holders will permit the cancellation of warrants held by them, for no cash consideration, in order to leave the fully diluted capital structure unchanged. Accordingly, during the fiscal year ended August 31, 2004, 6,564,584 Common share warrants and 2,320,882 Series C warrants were cancelled as a result of new share and warrant issuances during this period.

(f) Between September, 2003 and January, 2004, the Company issued 2,130,000 Series C preferred shares for cash consideration of $255,600. The shareholders will also receive 2,130,000 Series C warrants to purchase Series C shares of the Company at $0.12 per share. The warrants are exercisable at any time prior to the earlier of two years after the date on which the shares were issued or August 15, 2005.

(g) Between January and April, 2004, the Company received subscriptions for 2,343,000 Series C preferred shares for cash consideration of $281,160. The shareholders will also receive 1,171,500 Series C warrants to purchase Series C preferred shares of the Company at $0.12 per share. The warrants are exercisable at any time prior to the earlier of two years after the date on which the shares were issued or August 15, 2005.

(h) During July and August, 2004, the Company received subscriptions for 850,000 Series C preferred shares for cash consideration of $102,000. The shareholders will also receive 425,000 Series C warrants to purchase Series C shares of the Company at $0.12 per share. The warrants are exercisable at any time prior to the earlier of two years after the date on which the shares were issued or August 15, 2005.

7. STOCK OPTION PLAN

The Company has a stock option plan available to officers, employees, directors and other persons providing ongoing services to the Company. Under the plan, the number of common shares reserved for issuance must be a fixed number that is not greater than 20% of the issued and outstanding common shares, including issued and outstanding convertible Series B and C preferred shares. The number of common shares reserved for issuance was fixed by the shareholders on March 1, 2004 at 12,052,377 shares. The following is a continuity of stock options outstanding for which shares have been reserved:

	2004		2003	
	Options Outstanding (#)	**Weighted–Average Exercise Price $**	Options Outstanding (#)	Weighted–Average Exercise Price $
Opening	6,830,750	0.14	4,571,250	0.34
Granted	4,029,000	0.12	3,800,000	0.12
Exercised	—	—	—	—
Cancelled	(1,369,750)	0.15	(1,540,500)	0.68
Closing	9,490,000	0.13	6,830,750	0.14

The following summarizes information about stock options outstanding at August 31, 2004:

Exercise Prices $	**Number outstanding**	**Weighted-Average Remaining Contractual Life (years)**	**Weighted-Average Exercise Price $**	**Number Exercisable**	**Weighted Average Exercise Price $**
0.12	9,148,000	3.7	0.12	3,089,337	0.12
0.40	342,000	1.6	0.40	342,000	0.40
	9,490,000	3.6	0.13	3,431,337	0.15

The expiry dates of these options range from April 18, 2006 to July 15, 2009.

At August 31, 2004, of the 9,490,000 stock options granted, 3,431,337 were fully vested. The remaining 6,058,663 stock options will vest as follows:

Vesting Date	Number of shares vesting
February 2005	505,000
July 2005	90,000
April 2005	539,333
July 2005	79,998
April 2006	539,334
July 2006	79,998
Performance based	4,225,000
	6,058,663

The Company accounts for stock options based on the intrinsic value at the date of grant. Accordingly, no compensation cost has been recognized for this plan. The following pro forma financial information presents the net loss and net loss per common share had the Company elected to recognize compensation expense based on the estimated fair value of the options on the grant date in accordance with the fair value based method of accounting for the stock options. The pro forma disclosure omits the effect of awards granted before the years beginning September 1, 2002.

	2004	2003
	$	$
Net loss for the year as reported	**(639,465)**	(1,549,064)
Compensation expense	**(83,320)**	(31,165)
Pro forma net loss	**(722,785)**	(1,580,229)
Basic and diluted net loss per share as reported	**($0.03)**	($0.07)
Pro forma basic and diluted net loss per share	**($0.03)**	($0.07)

During the year ending August 31, 2004, the Company granted 4,029,000 stock options with an exercise price of $0.12 per share, as per the Company's Stock Option Plan. The weighted average fair value of the stock options granted was $0.09 per option. The Company used the Black-Scholes option pricing model to estimate the fair value of the options at each grant date with the following assumptions:

Expected dividend yield	0.0%
Volatility in the price of the Company's shares	111.2%
Risk-free interest rate	3.31%
Expected life	3 years

8. NET CHANGE IN NON-CASH WORKING CAPITAL

	2004 $	2003 $
Trade accounts receivable	**15,418**	(152,529)
Inventory	**3,104**	3,261
Prepaid expenses	**841**	29,531
Accounts payable and accrued liabilities	**(48,433)**	(370,232)
Deferred revenue	**34,915**	8,200
Due to shareholders	**–**	(57,460)
	5,845	(539,229)

9. INCOME TAXES

The Company's computation of income tax recovery is as follows:

	2004 $	2003 $
Expected income tax recovery at 34.87% (August 31, 2003 – 37.63%)	**(222,981)**	(582,913)
Decrease(increase) in tax benefit resulting from:		
Future tax asset valuation allowance	**215,947**	383,112
Higher effective foreign tax rates	**(8,071)**	(1,251)
Non-deductible expenses	**25,550**	60,320
Reduction in temporary differences from tax reassessment	**–**	182,096
Non-taxable portion of capital gains	**(845)**	(41,364)
Reduction in future income tax assets due to tax rate changes	**249,671**	167,117
Reduction in valuation allowance as a result of tax rate changes	**(249,671)**	(167,117)
Income tax recovery	**–**	–

The components of the Company's future tax assets and liabilities are as follows:

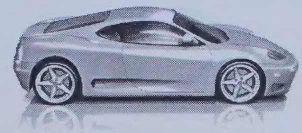
	2004	2003
	$	$
Future tax assets:		
Net operating loss carryforwards	**5,623,148**	5,733,608
Cumulative eligible capital	**6,625**	4,190
Excess undepreciated capital cost over net book value	**3,708,131**	3,608,810
Share issue costs	**37,982**	105,462
Total future income tax assets	**9,375,886**	9,452,070
Valuation allowance	**(9,375,886)**	(9,452,070)
Net future income tax assets	**–**	–

The Company has provided a valuation allowance for the full amount of net future income tax assets in light of the history of operating losses since its inception.

At August 31, 2004, the Company has non-capital losses carried forward for Canadian and International income tax purposes and the years of expiry of the Canadian losses are as follows:

	$
2006	761,134
2007	6,498,320
2008	5,501,756
2009	1,695,625
2014	406,958
	14,863,793

The losses for the United States operations of approximately $294,000 expire within 18 years, the losses for the United Kingdom operations of approximately $1,632,000, and the losses for the Ireland operations of approximately $15,000 may be carried forward indefinitely.



10. COMMITMENTS

The Company has commitments for vehicle operating leases and leased premises. The lease terms expire on dates ranging from September 2005 to December 2008. The lease commitments are as follows:

	$
Year ended August 31, 2005	165,758
2006	39,294
2007	35,546
2008	33,596
2009	11,199
	285,393

11. FINANCIAL INSTRUMENTS

Financial instruments consist of cash and cash equivalents, trade accounts receivable, accounts payable, capital lease obligations, and convertible debentures There is no material difference between the carrying value of these instruments and their fair value. The Company does not have a concentration of credit risk due to its wide customer and supplier base. The Company's activities involve purchases and sales of certain products and services that are denominated in foreign currencies. These activities result in an exposure to the fluctuations in those foreign currencies.

12. SEGMENT INFORMATION

The Company's activities are conducted in one operating segment and are carried out in four geographic segments consisting of Canada, United States, United Kingdom, and Ireland. All geographic segments derive revenues from reverse publishing and technology solutions that link the media and automotive and real estate sectors. Revenues are attributed to countries based on location of customer.

	2004				
	Canada	**United States**	**United Kingdom**	**Ireland**	**Total**
	$	**$**	**$**	**$**	**$**
Revenue	**1,625,848**	**46,696**	**284,031**	**638,741**	**2,595,316**
Capital assets	**326,693**	**—**	**—**	**3,075**	**329,768**

	2003				
	Canada	United States	United Kingdom	Ireland	Total
	$	$	$	$	$
Revenue	1,692,960	108,049	283,637	314,438	2,399,084
Capital assets	413,923	—	2,550	2,213	418,686

13. SUBSEQUENT EVENTS

On September 21, 2004, 200,000 Series C preferred shares were converted to 200,000 common shares of the Company.

BOARD OF DIRECTORS

T. Christopher Bulger, CFA, MBA
Chairman and CEO
Megawheels Technologies Inc.

Robert Byrne
Director
Megawheels Technologies Inc.

Phillip Crawley
Publisher and CEO
The Globe and Mail

Kenneth Hardy, PhD
Professor of Marketing
Richard Ivey School of Business

Robert F. Jolly
President
Megawheels Technologies Inc.

James Robert McPherson
Partner
McPherson L'Hirondelle Associates

Chuck Walker
President and CEO
The Walker Group

MANAGEMENT TEAM

T. Christopher Bulger, CFA, MBA
Chairman and CEO

Robert F. Jolly
President

Richard Brightling
Vice President, Sales and Marketing

Danielle Leger, CMA
Corporate Controller

Linda J. MacKenzie
Director, Administration and Client Services

Andy Feltmate
General Manager, Drive

Jody Harris
Software Development Manager

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
600, 530 – 8th Ave. S.W.
Calgary, AB Canada T2P 3S8

AUDITORS

Ernst & Young LLP
Chartered Accountants
1000, 440 – 2nd Ave. S.W.
Calgary, AB Canada T2P 5E9

LAWYERS

McCarthy Tetrault
Barristers & Solicitors
Suite 3300, 421 7th Ave. S.W.
Calgary, AB Canada T2P 4K9

CORPORATE SECRETARY

Peter Stone
Barrister & Solicitor
1922 Bowness Road N.W.
Calgary, AB Canada T2N 3K6

SHARE INFORMATION

As of December 1, 2004

Shares Issued and Outstanding	67,840,684
Fully Diluted	94,546,609
52 Week Hi Low	\$0.14 - \$0.08
Recent Price (December 1, 2004)	\$0.12
Market Cap	\$11,345,593

MEGAWHEELS TECHNOLOGIES INC.

Suite 400, 255 - 17th Avenue SW, Calgary, Alberta, Canada T2S 2T8
1.888.867.3334 • www.megawheels.com